

BRAZIL REPORT

SUMMARY:

A congressional delegation traveled to Brazil during the week of November 28 through December 2, 2005. The primary focus of the trip was on Brazil's important role in the DOHA round of multilateral trade negotiations, along with the bilateral relationship between the United States and Brazil. The trip was scheduled several weeks prior to the Hong Kong Ministerial Conference so that the delegation's examination of the issues and discussions with Brazilian government officials and legislators would be timely.

The trip agenda provided an opportunity for the delegation to examine the Brazilian economy and issues central to the Doha negotiations prior to the discussions with Brazilian government leaders and legislators. During the initial three days of the program, the delegation held a series of meetings with business leaders and toured industrial and commercial facilities in key sectors of the Brazilian economy. The delegation then traveled to Brasilia to meet with Brazilian government officials and Members of the Brazilian legislature and shared their views on these issues. The objective of these talks was to increase the mutual understanding between the two countries and help build a foundation for success at the WTO Ministerial Conference in Hong Kong that started less than two weeks after the end of the delegation's visit to Brazil.

The trip concluded with an examination of the challenges Brazil faces in eradicating poverty in Brazil, as well as programs to address the enormous income gap that presents significant obstacles for the Brazilian economy and society. This portion of the program was highlighted by visits to two social programs funded by the Inter-American Development Bank that are designed to help children from the favelas (shantytowns) escape the cycle of poverty and find a place in mainstream Brazilian society.

Six Members of Congress participated in the delegation. They were:

- Congressman Phil English (R-PA), the leader of the delegation, who is a member of the Committee on Ways and Means and the Joint Economic Committees. Congressman English also serves as Cochairman of the Congressional Caucus on Brazil.
- Congressman Michael E. Capuano (D-MA) who serves on the Transportation and Infrastructure and Financial Services Committees;
- Congressman Dennis Cardoza (D-CA) who serves on the Agriculture and International Relations Committees;
- Congressman Jim Costa (D-CA) who serves on the Agriculture and Resources and Science Committees;
- Congressman Mike Honda (D-CA) who serves on the Science and Transportation and Infrastructure Committees; and
- Congresswoman Eddie Bernice Johnson (D-TX) who serves on the Science and Transportation and Infrastructure Committees.

The Congressional Economic Leadership Institute (CELI) and the Woodrow Wilson International Center for Scholars sponsored and organized the trip to Brazil. The Brazilian Information Center (BIC) provided organizational support and coordination for the trip, particularly in connection with the legislative dialogue between US and Brazilian legislators and the meetings with other Brazil government officials. The Inter-American Development Bank (IDB) provided a grant to the Woodrow Wilson International Center to support its sponsorship of this program. Staff from CELI, the Woodrow Wilson Center and the BIC accompanied the congressional delegation on the trip, as did representatives of CELI sponsors.

Delegation's Objectives: The congressional delegation trip was focused on three specific objectives. The primary objective was to examine the issues related to the Doha Round of the WTO negotiations and have discussions with Brazilian government officials and legislators on these issues prior to the Hong Kong Ministerial Conference that was held in the week of December 12-16, 2005. In order to prepare for these meetings and gain a first-hand appreciation for the issues that are central to the Brazilian economy, the delegation spent the first three days of the trip meeting with business leaders and touring commercial and industrial facilities in Brazil. This information would be related to the Doha Round of multilateral trade negotiations being conducted under the aegis of the World Trade Organization. The trip also provided opportunities for the Members of the delegation to discuss these issues with representatives of the Brazilian legislature and government.

Second, the delegation focused on the current state of U.S.-Brazil bilateral relations. Over the last decade, Brazil has become as a more active participant in global affairs. A traditionally peaceful nation, Brazil is seeking a permanent seat on the UN Security Council, has peacekeeping troops in Haiti, and has emerged as a leader within the Southern hemisphere and among middle-income countries.

A third objective of the delegation visit was to participate in a legislative dialogue with Brazilian legislators and, hopefully, set the foundation for an ongoing program of legislative exchanges between U.S. and Brazilian legislators. The idea for a series of regular exchanges was first discussed at a meeting in Washington in 2004 during a visit by a group of Brazilian legislators to the U.S. Congress. The legislative dialogue in Brasilia was the second in what may become a regular program of exchanges between the legislators from these two countries.

BACKGROUND:

For years, Brazilians joked that Brazil was the country of the future – and always would be. That era is over. Brazil is now the world's eighth largest economy, an important player in world trade negotiations, and a major force in key agricultural markets. It remains, however, a country of contrasts with millions of poor, global businesses, and enormous potential.

Brazil: A Growing Force in the Global Economy: Brazil's 182 million inhabitants make it the fifth most populous country with a physical size slightly larger than the continental United States. It is the industrial and financial center of South America and has been one of the world's largest economies for a number of years. In terms of perspective, however, Brazil's GDP of just over \$600 billion still ranks behind Texas's GDP of \$700 billion. It is an important market for oil and gas equipment and also imports advanced electronics from the United States.

Brazil is a power in specific agricultural products including soybeans, broilers, beer, sugar, orange juice and ethanol. Together, agriculture and food processing account for almost 30% of the entire Brazilian economy and 40% of their exports. Relatively low land and wage costs give Brazil a comparative advantage in agricultural production, but its insufficient rail and highway system and lack of adequate port infrastructure keep it from realizing its full potential.

Brazil's manufacturing and service sectors compete in the world market and are leaders within South America. Aircraft manufactured by Empresa Brasileira de Aeronáutica – the Brazilian Aviation Company (“EMBRAER”) -- are among the most sophisticated in the world and, along with Bombardier of Canada, share the world market for 30- to 110-seat commercial aircraft. More than four hundred of the world's largest 500 multinational corporations have business operations in and around São Paulo, Brazil. Many of these operations are focused on the growing internal market within Brazil, while others use Brazil as a base from which to provide goods and services throughout Latin and South America and the rest of the world.

At home, Brazilian fiscal and monetary policy has controlled inflation and created a climate that has fostered relatively rapid and stable growth for several years. The combination of prudent macro-economic policy and floating exchange rates has persisted through a change of government and seems to have considerable popular support.

Brazilian Politics: Brazil started life as a Portuguese colony, eventually became an independent empire, and then a Republic. Following a military coup in the early 1960s, the Brazilian military ruled Brazil for the next two decades. In that sense, Brazilian democracy is relatively new. However, it is clear that Brazil's democracy is strong, and that democratic institutions and the democratic process are well established within Brazil at the present time and will be for the foreseeable future.

The strength of Brazil's democracy has been particularly evident over the past year as Brazilian politics has been roiled by allegations that the government party used campaign contributions to influence votes in the Brazilian Congress. The allegations have not reached President Luiz Inácio Lula da Silva, generally referred to as President Lula, but have affected senior members of his cabinet. In fact, the delegation arrived in Brasília on November 30th just as the Brazilian Congress voted to expel José Dirceu from his seat in the legislature. Dirceu had resigned earlier as President Lula's chief of staff.

The allegations of political corruption have also been directed at Antônio Palocci, the current Finance Minister. Minister Palocci has denied all allegations, none of which have been adjudicated. Minister Palocci is a significant figure both within Brazil and in the international economic community because he is seen as the primary advocate within the Lula government for the tough macro-economic policies Brazil has adopted that has helped foster growth with relatively low inflation. There has been concern that these policies would be abandoned if Minister Palocci is forced to leave his position. A recent Woodrow Wilson Center conference on the political scandal in Brazil emphasized that the political turmoil in Brazil had not negatively affected Brazil's standing with international credit rating agencies.

The political upheaval surrounding the scandal has, however, caused shifts in alliances among the approximately thirty political parties in Brazil and forced President Lula's governing party to seek a variety of allies to pass new legislation. It also had reduced President Lula's standing from a heavy favorite for reelection to a candidate who appears likely to face stiff opposition in elections scheduled for late-2006. There was not a settled opinion as to who the key competitor or competitors would be, with the governor of São Paulo state (Geraldo Alckmin) and the Mayor

of São Paulo (José Serra, who lost to Lula in the last election) frequently mentioned in the Brazilian press as likely challengers.

Brazilian Foreign Policy: The Lula government has opted for a higher profile foreign policy including a role as a leader among middle-income countries. The government is attempting to revitalize Mercosul (a customs union including Argentina, Brazil, Paraguay, and Uruguay). There was little likelihood of any progress on the Free Trade Area of the Americas until the outline of an agreement on the multilateral Doha Round of negotiations becomes clear.

TRIP REPORT

Prior to its departure from Washington, the delegation received a comprehensive briefing by the Office of the United States Trade Representative on the status of the WTO negotiations and, in particular, the U.S. view on Brazil's actions in the negotiations. The briefing gave the delegation an up to the minute sense of the state of trade negotiations, the U.S. strategy, and the current Brazilian position. The delegation also met with the Honorable Roberto Abdenur, Brazil's Ambassador to the United States, prior to the trip.

Philip Chicola, the Charge d'Affairs in Brasilia, and Christopher McMullin, the Consul General in the São Paulo consulate, also briefed the delegation upon its arrival in São Paulo. The briefing was comprehensive, candid, and gave the delegation an excellent overview of the economic and political situation in Brazil. Consul General McMullin and the senior members of the consulate team followed up the next day with a more detailed briefing on the key issues in the U.S.-Brazil relationship and the specific topics that the delegation would be examining during its visit.

Multilateral Trade Negotiations

As noted above, one of the primary objectives of the delegation's visit was to examine the key issues involved in the Doha Development Round of multilateral trade negotiations. Brazil has emerged as a leader of the group of 20 middle-income countries (the "G20") in these negotiations and, at the Cancun WTO Ministerial in 2003, Brazil led the G20 in strong opposition to the position of the European Union and the United States. In making the study tour to Brazil, the delegation was intent in securing a first hand assessment in Brazil's negotiating posture in agriculture, services, manufacturing, rules and the protection of intellectual property.

Agriculture: The delegation began its focus on the issues in the WTO with several programs that examined agriculture trade issues, which are the central issues to the Doha Round and the current sticking point in the negotiations. The delegation met with senior officials at the BM&F, Brazil's Mercantile and Futures exchange, where they were briefed on market operations and safeguards and toured the facility. Now trading in derivatives and exchange rates as well as futures contracts for key agricultural commodities, the BM&F is already the world's fifth largest futures exchange.

The delegation then participated in a forum on agriculture trade issues at which Brazil's former Agriculture Minister, Pratini de Moraes, briefed the delegation on the status of Brazil's agricultural sector, its outlook for increased production and exports, and Brazil's objectives for increasing trade in agricultural goods through the Doha negotiations. Antonio Carlos de Mendes Thame, a Member of the Brazilian legislature, also spoke to the delegation on the topic of agriculture trade and suggested an approach through which the U.S. and Brazil could work together to reach agreement in the Doha round. Congressman Jim Costa made a presentation to the forum that provided the U.S. perspective on these issues. Former Ambassador to the United

States Rubens Barbosa, senior officials from the BM&F, and leaders of Brazil's major agriculture companies and exporters also attended the forum.

Former Minister Pratini de Moraes' presentation explained why Brazil has joined the United States in pressing the European Union to open its market to international competition in agricultural products. In a world of free trade, Brazil sees enhanced opportunities for its exports of soybeans, sugar, ethanol, beef, and orange juice. He described how rising incomes around the world are creating a growing demand for beef, fruit and dairy products. Increased productivity in cattle raising and still unused land could add as much as 200 million hectares in soy and other crops. He noted that open markets would allow the United States and Brazil to continue to compete for world markets in soybeans and beef, but that it also is important that the U.S. open its own markets for sugar and concentrated orange juice.

Already a force in world agriculture, Brazil sees enormous potential ahead. Former Minister Pratini told the delegation that he envisions the United States and Brazil as the two agricultural powers that would "feed the world." What Brazil lacks, the former minister stressed, is adequate port, highway, and rail systems to bring their products to market. The delegation would hear the same complaint whenever the discussion turned to agriculture.

The former minister also saw enormous potential for ethanol as a non-polluting alternative to gasoline. At other meetings, the delegation learned that more than sixty percent of autos currently being sold in Brazil have "flex fuel" engines that can run on any combination of gasoline and ethanol. The former minister's views about Brazil's agricultural potential and the positive prospects for both countries were seconded by Antonio Carlos de Mendes Thame a Brazilian member of Congress.

Services and Manufactures: The delegation visited two major commercial facilities in order to examine Brazil's services and manufacturing sectors. These visits included meetings with senior management at which the delegation discussed how Brazil's laws and policies promote and inhibit the expansion of these businesses, as well as trade with the United States and the rest of the world. The delegation also discussed the services and manufacturing sector issues currently being negotiated at the WTO and how the potential resolution of these issues would affect these sectors. Throughout these meetings, the delegation stressed the importance of Brazil being more flexible on access for services and manufactures.

The delegation examined service sector issues in a visit to the campus of EDS Brazil (Electronic Data Systems), which is located in São Bernardo, near São Paulo. It was clear from the visit that Brazil has already entered the global competition to provide high quality, low-cost business services. In addition to serving the growing services market in Brazil, where more than 400 of the world's largest 500 multinational corporations have located major operations, the EDS facilities in Brazil are an integrated component of EDS's global services network. As such, the EDS operations in Brazil must meet EDS's global standards for performance and quality and all employees must adhere to a global Code of Conduct. In this regard, EDS Brazil sees itself as being in competition with India, China, and other ambitious suppliers of business services. That EDS Brazil is succeeding in this competition is evident in the growth that it has experienced – growth that has been sufficient to hire approximately 1,000 new employees a year for the last several years.

The delegation discussed several of the major challenges that EDS faces at its Brazil operations. One of these challenges is to recruit and train a workforce in Brazil that is capable of meeting the EDS standards of performance. EDS explained to the delegation how it is working to overcome

the limitations of Brazil's educational system by working with local universities to help develop a computer science curriculum that will fit EDS's demands. The delegation also discussed the difficulties presented by Brazil's current tax system, which imposes high taxes on the much of the equipment that EDS imports for its facilities in Brazil, and also imposes taxes on the export of goods and services. The EDS officials are working with other multinationals based in Brazil to provide analyses to the Brazilian government on how these tax policies are a disincentive to business investment in Brazil.

The delegation visited the main facilities of EMBRAER located in the heart of the state of São Paulo and had the opportunity to examine the capabilities of Brazil in advanced manufacturing. EMBRAER is one of four major aircraft manufacturers in the world today. EMBRAER aircraft are in the fleets of many U.S. carriers, including American Airlines, United Express, Continental, US Airways and Jet Blue, as well as other airlines around the world. EMBRAER also produces surveillance, intelligence and surveillance aircraft for the military and a line of corporate jets. It is currently Brazil's third largest exporter – and has been number one in export sales (EMBRAER was Brazil's largest exporter for three consecutive years prior to 9/11). The delegation was briefed on EMBRAER's presence in the U.S. over the last 25 years, which includes a sales and customer support facility in Fort Lauderdale, Florida and a maintenance, repair and overhaul facility in Nashville, Tennessee. EMBRAER also has risk-sharing partnerships with many of the top U.S. aerospace manufacturers such as Honeywell, Hamilton Sundstrand and General Electric and purchases parts and components for its aircraft from companies across the United States, with U.S.-manufactured parts and components accounting for greater than 70 percent of the total value.

The delegation discussed the WTO issues related to manufacturing and Brazil's tax and other policies as they may restrict the ability of U.S. companies to be a supplier to and partner with EMBRAER. The delegation also discussed the reasons why EMBRAER recently opened an assembly operation in Harbin, China, and the extent to which EMBRAER was allowing its Chinese partner access to EMBRAER's technology. With regard to workforce issues, EMBRAER briefed the delegation on how it is able to draw much of its engineering talent from the Institute for Aeronautical Technology, modeled after the Massachusetts Institute of Technology, that was established by the Brazilian government in the 1960s as a way to help build and support an aviation industry within Brazil.

Intellectual Property: The delegation participated in an intellectual property forum sponsored by the American Chamber in São Paulo, Brazil. The forum participants included Congressman Michael Capuano, as well as representatives of the pharmaceutical industry and major copyright holders, such as the software and entertainment industries. The panel discussed a broad range of concerns arising from Brazil's failure to properly establish and enforce appropriate intellectual property protections. Brazil has repeatedly threatened to break the patents of American pharmaceutical manufactures' HIV/AIDS drugs to allow the production of domestic low-cost, generic copies of the anti-viral drugs. Brazil has also established government price controls and price freezes for patented drugs that primarily affect the pharmaceutical R&D industry. Music, films, and software are widely copied or smuggled in Brazil. It is routine for Hollywood movies to be 'on the street' even before they are released in the United States.

The panel discussed the importance of intellectual property protection for both the United States and Brazil, stressing that intellectual property protection will be ever more important to Brazil as its economy becomes increasingly sophisticated and based upon high-technology and innovation. The panel also discussed how Brazil's own entertainment industry is damaged by Brazil's failure to prevent piracy and fraud and Brazil's anti-IP stance in such international forums as the World Intellectual Property Organization (WIPO).

Meetings with Brazilian Business Leaders: In addition to meeting with corporate officials at the various facilities that they visited, the delegation met with Brazilian business leaders at several other events during the visit. One program was hosted by the American Chamber of Commerce of Sao Paulo, at which Congressman Phil English delivered remarks on the “U.S. Perspective on the WTO” which discussed the importance of a potential agreement in the Doha Round and the type of actions by Brazil and the U.S. that would be necessary to reach an agreement. Another program was hosted by the Brazil Information Center. These programs provided an opportunity for the delegation to meet and have one-on-one discussions with leaders of the Brazilian business community, including representatives of such key industries as steel, agriculture and mining.

U.S.-Brazil Bilateral Relations

The delegations visit to Brazil came less than two weeks after President Bush’s visit to Brazil and meeting with President Lula. The delegation heard a number of reports about how Brazilian business and government leaders viewed President Bush’s meeting with Brazilian President Luiz Inácio Lula da Silva as positive and productive.

As noted above, Brazil has been both ally and an occasional opponent in the context of the multilateral trade negotiations. Brazil and the United States co-chair the negotiations for a Free Trade Area of the Americas (FTAA) but have not made much headway for some time. Progress on an FTAA agreement is unlikely to be made until the outlines of a multilateral agreement are much clearer.

MEETINGS WITH BRAZILIAN GOVERNMENT OFFICIALS

Following its examination of key sectors of the Brazilian economy and the issues in the Doha Round of the WTO negotiations, the delegation traveled to Brasilia, the capital of Brazil, for meetings with officials from the Brazilian government and a legislative exchange with Members of the Brazilian legislature.

Meeting with Luis Fernando Furlan, Minister of Development, Trade and Industry. The delegation met with Luis Fernando Furlan, the Brazilian Minister of Development, Trade and Industry, regarding the broad range of issues involved in the WTO negotiations and bilateral trade issues between the U.S. and Brazil. At the outset, Minister Furlan told the delegation that he saw a convergence of the U.S. and Brazilian negotiating positions on agriculture. Based on his most recent discussions with Brazil’s Foreign Relations Minister Celso Amorim, Brazil’s chief negotiator at the WTO, Minister Furlan was not optimistic about the mid-December Hong Kong Ministerial. However, Minister Furlan was hopeful that there would be more progress at a mini-ministerial scheduled for March and, in his view, it was a question of when – not whether – an agreement would be reached in the negotiations for the phase out of export subsidies for agricultural crops. The minister linked agricultural trade to employment in the developing world and suggested that increased opportunities for agricultural trade might be an alternative to the flow of immigrants seeking opportunity in the industrial world.

One of key points in the discussion with Minister Furlan involved the need for Brazil and the G20 countries to be flexible on manufacturing and services. The delegation suggested that, in order to make progress in the WTO negotiations, it would be important for Brazil to make clear to the EU and other countries its willingness to move in these areas. The delegation received assurances that Brazil could be more flexible on services. Shortly after the delegation returned to the United States, Brazil publicly announced greater negotiating flexibility in services and manufacturing.

The delegation also raised with Minister Furlan the concern with Brazil's enforcement of its laws protecting intellectual property. Minister Furlan pointed to improved laws, regulations, and enforcement. The delegation, however, countered by noting that limitations on smuggling were weak – particularly along the southern border where Argentina, Brazil, and Paraguay meet. Minister Furlan reported that they are making headway in limiting the gray market, however, by reducing taxes and hence the incentives to smuggle certain items. He also mentioned that Brazil was the sixth largest market for software and ranked eleventh in terms of piracy.

The delegation discussed Brazil's growing use of alternative fuels – particularly ethanol. Sixty percent of new cars sold in Brazil are "flex fuel vehicles" that can include any mix of ethanol and conventional gasoline. EMBRAER also produces an ethanol-fueled crop-dusting aircraft, which has recently received awards from *Flight International* and *Scientific American* magazines. The economics of ethanol are changing in Brazil, in part because genetic engineering has created sugar cane plants that will continue to yield sugar for seven years. Minister Furlan mentioned that he has invited the U.S. Secretary of Transportation to observe the flex fuels system first hand.

The delegation also discussed concerns related to foreign investment in Brazil and suggested that a tax treaty between the U.S. and Brazil could be a way to increase foreign direct investment. The delegation suggested that General Electric's heavy locomotive division would be interested in Brazil's plans to expand its rail network and expanding sales in the Brazilian market. The Minister agreed, and added that GE CEO Jeffrey Immelt was scheduled to visit Brazil in January.

The delegation had worked to schedule a meeting with Foreign Relations Minister Celso Amorim, Brazil's chief negotiator on the WTO, but he was out of the country at the time for discussions related to the negotiations.

LEGISLATIVE EXCHANGE

One of the primary objectives for the delegation's visit to Brazil was to participate in a legislative dialogue with Brazilian legislators. The dialogue began with an opening dinner that provided an opportunity for the members of the delegation to meet and have informal discussions with their Brazilian counterparts. Although more than 20 Brazilian legislators had been confirmed to attend the dinner, reflecting the high level of interest and importance with which they viewed the U.S. delegation's visit, many were unable to do so because it took place at the time when the House of Delegates was debating and voting on an action to expel José Dirceu from his seat in the legislature. Dirceu had resigned earlier as President Lula's chief of staff.

Meeting with Aldo Rebelo, President of the House of Deputies. The formal program of the legislative dialogue began when the U.S. delegation met with Aldo Rebelo, the President of the Brazilian Chamber of Deputies. He formally welcomed the U.S. delegation to Brazil and noted how the U.S. history and struggle for independence had provided inspiration in the fight for Brazilian independence and democracy. He told the delegation that an early martyr in Brazil's struggle for independence had a copy of the Declaration of Independence in his pocket.

Legislative Dialogue with the Foreign Relations Committee of the House of Delegates. The legislative dialogue was held in the Committee room of the Committee on Foreign Relations of the Chamber of Deputies. Although the dialogue was not a formal session of the Committee, it was authorized and conducted pursuant to a resolution adopted by the Committee. The dialogue was jointly chaired by Dep. Aroldo Cedraz, the Presidente (Chairman) of the Foreign Relations Committee and Congressman Phil English, the leader of the U.S. delegation. The legislative

dialogue was also co-chaired by Deputy Luiz Carlos Hauly, who had played a major role in organizing the Brazilian legislators' participation in the program, and Nelson Mourão,, the Vice-Chairman of the Foreign Relations Committee. Including the co-chairs, the Brazilian participants included:

- Dep. Aroldo Cedraz - PFL/BA - President of CREDN – Foreign Relations and Defense Committee
- Dep. Nilson Mourão - PT/AC - Vice-President of CREDN
- Dep. Nelson Marquenzi - PTB/SP
- Dep. Coubert Martins - PPS/BA
- Dep. Edson Ezequiel - PMDB/RJ
- Dep. Paes Landim - PTB/PI
- Dep. Antônio Carlos Pannunzio - PSDB/SP
- Dep. Luiz Carlos Hauly - PSDB/PR – President of the Brazil-US Parliamentary Group (the Brazilian Congress equivalent of a congressional caucus)
- Dep. André Costa - PDT/RJ
- Dep. Julio Delgado - PSB/MG
- Dep. Socorro Gomes - PCdoB/PA e
- Dep. Maninha - PSOL/DF

After introductory statements, the floor was opened for discussion on a broad range of topics. The topics included the current state of and recent developments regarding the U.S. economies and political situations, issues related to the U.S.-Brazil bilateral relationship and issues and concerns related to the WTO trade negotiations and other multilateral organizations and agreements. Specific issues that were discussed included global warming and the U.S. refusal to sign the Kyoto Protocol, the war in Iraq, the potential benefits to the U.S. and Brazil of increasing trade, and opportunities to reduce the flow of illegal immigration from Brazil and Latin America to the United States through increased economic growth. The U.S. and Brazilian legislators also discussed issues related to the WTO negotiations, including the common interest of the U.S. and Brazil to encourage the European Union to modify its position on agriculture trade, the importance of Brazil and the other G-20 countries of demonstrating their willingness to make concessions in the services and manufacturing negotiations, and the need to preserve and improve intellectual property protections in this round of discussions. The dialogue concluded with comments from both the U.S. and Brazilian side regarding the value of continued communication between legislators from different nations and the mutual interest in continuing this dialogue. The Brazilians also suggested having the U.S. legislators participate in other legislative exchanges involving legislators from South and Latin America.

The concluding event to the legislative dialogue was a lunch hosted by the President of the House of Deputies for the U.S. Members of Congress and senior members of the House of Deputies. In addition to trade and the economy, the delegation exchanged information on how their respective congresses dealt with legislation, oversight, and elections. The delegation and their Brazilian counterparts urged an ongoing dialogue between the two congresses.

PROGRAMS TO ADDRESS POVERTY IN BRAZIL

The delegation concluded its visit to Brazil by traveling to Rio de Janeiro to examine issues related to poverty in Brazil, and in particular the urban favelas (shanty towns) that are home to the poorest of the poor in Brazil. The favelas in Rio, which in 1993 housed about one fifth of the Municipality's population, have their roots in the end of the nineteenth century. At that time, the

hills in the city began to be irregularly occupied by the poor. Over a hundred years, the favelas grew in size and number, but also went through a transformation from wooden shacks to improvised brick structures built into the hillsides and often several stories high. Without paved roads, running water, sanitary sewerage and other utilities, the residents of the favelas were trapped in a cycle of poverty that trapped families for generations.

The delegations toured several of the favelas to examine the progress that has been achieved through the Favela-Bairro program, a massive program initiated by the Municipality of Rio in 1993 that has received almost \$1 billion in funding from the Inter-American Development Bank (IDB). The delegation was briefed by IDB officials on how the Bank funds these programs, its overall strategy and portfolio of loans and programs in Brazil, and the Favela-Bairro program in particular. Rather than removing the inhabitants from the favelas to housing projects, the Favela-Bairro program seeks to bring social and infrastructure services to the favelas in a manner that will help create real neighborhoods and opportunities for the residents of these communities.

The delegation also toured several of the Favela-Bairro projects with officials from the Municipality of Rio. These officials described the significant progress that has been made and the benefits that have been achieved for more than 600,000 thousand of the city's residents. In addition to providing the basic infrastructure, the program has provided the residents of the favelas with an address, which is essential to receiving mail and having an identity with the city and is often a prerequisite to obtaining credit and the other services that are essential to progress. The delegation visited one of the day-care centers that have been built throughout the favelas as one of the first elements of the Favela-Bairro project. The delegation also visited an innovative program housed in a large former warehouse that seeks to use Brazilian culture and the arts as a vehicle to help teenagers escape the gang life of the favelas and enter mainstream society. Teenagers attend the program for half-a-day, with the other half-day spent in the more traditional school classroom. The success of the program is evident in the work done by its more than 500 students, as well as the fact that more 1500 students apply to the program each year.

CONCLUSIONS

The delegation traveled to Brazil during the week of November 28-December 2, 2005, only a few weeks prior to the Hong Kong Ministerial of the WTO. This timing was intended to provide the delegation an opportunity to learn first-hand about the Brazilian economy, and to deliver a strong message on the need for Brazil to show flexibility in opening its market to services and manufactures and to sharply improve its protection of intellectual property. The delegation's visit closely followed President Bush's visit to South America that included a meeting with the Brazilian President Lula and came at a time when Brazilian democracy was being tested by allegations of a vote buying scandal. In fact, while the delegation was in the Brazilian capital, the Brazilian Congress voted to expel a powerful member who had served as the President's chief of staff.

The delegation left with a better sense of the economic and political realities that influenced Brazil's negotiating position in the multilateral trade talks. They had a much deeper sense of Brazil's enormous agricultural potential and the possibility that ethanol may be a factor in fueling the future growth of both the United States and Brazil. The delegation found the bilateral relations to be good. Brazil and the United States are two, large, vibrant democracies that share many values and many similarities in their history. The delegation had the opportunity to participate in a valuable legislative exchange with legislators from the Brazilian Congress. Broadening and deepening these legislative exchanges is one to build upon and strengthen this relationship and should be an objective for the future.

The visit also highlighted the enormous contrasts in Brazil. On the one hand, Brazil has an agriculture sector that is a force in world markets, sophisticated 21st century businesses, and bustling cities. On the other hand, within Brazil's cities are the sprawling favelas or shanty towns that are home to as much as one-fifth of the population and the country's transportation infrastructure is barely able to handle the current level of trade and commerce, much less the significant growth in economic activity that Brazil's business and government leaders say is just around the corner.

What is perhaps most evident from the delegation's visit is the importance of Brazil within South America, the hemisphere and increasingly the world. Having learned much more about Brazil, the delegation was even more aware of how little attention Brazil receives in the American media and from policy makers within the United States. Brazil will be one of the powers of the 21st century and Americans need to know more about its history, economy, politics and culture.